

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6876

BILL NUMBER: HB 1075

NOTE PREPARED: Mar 13, 2007

BILL AMENDED: Mar 6, 2007

SUBJECT: Individual Development Accounts.

FIRST AUTHOR: Rep. Day

FIRST SPONSOR: Sen. Kenley

BILL STATUS: As Passed Senate

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) The bill provides that money withdrawn from an individual development account (IDA) may be used to pay for the rehabilitation of the individual's primary residence. It raises from \$300 to \$400 the amount deposited in an IDA in a year that the Housing and Community Development Authority must match with state funds. The bill provides that the Authority may match any portion of an individual's deposit into an IDA each year that is over \$400. It raises the limit on the amount the Authority may annually match from \$900 to \$2,400 per account. It also raises the number of IDAs that may be established annually from 800 to 1,000 beginning July 1, 2009. The bill also provides that if the amount appropriated by the General Assembly for IDAs is insufficient to make the required matching deposits, the authority shall proportionately reduce the amounts deposited into each account

Effective Date: July 1, 2007.

Explanation of State Expenditures: (Revised) *Summary:* The bill makes three changes relating to the state match of account deposits and the maximum number of accounts that may be established each year under the Individual Development Account program administered by the Indiana Housing and Community Development Authority (IHCDA). The proposed changes are as follows.

(1) The bill increases the annual IDA deposit amount matched by state funds from \$300 to \$400 beginning in FY 2008. This would increase the maximum annual matching payment by the state from \$900 to \$1,200 (under the \$3 for \$1 saved matching formula). If annual account and deposit totals since FY 2004 persist, this change could potentially increase state expenditures for the required matching payments by about \$270,000 to \$360,000 beginning in FY 2008 and FY 2009. Given that most IDA owners currently deposit at least \$300, if the active account total exceeds the 1,000 to 1,200 range then the fiscal impact of the bill

is likely to exceed the range specified above. The IHCDCA could, however, potentially reduce the aggregate impact of the matching payment increase by allowing fewer new IDAs to be established each year.

(2) The bill increases the maximum annual new IDAs that may be established from 800 to 1,000 beginning in FY 2010. The potential fiscal impact of this change is indeterminable and would depend on appropriations and the availability of other funding to make the required annual matching payments on active accounts. According to the IHCDCA, the current law annual maximum of 800 new IDAs has not been reached since FY 2003 due to funding constraints.

(3) The bill authorizes the IHCDCA to provide matching payments for annual deposits exceeding \$400 and up to \$800. The impact of this change would depend on actions by the IHCDCA.

The bill also provides that if the amount appropriated for matching payments to accounts is insufficient in a year, the IHCDCA must proportionately reduce the matching payment to each account.

Background: Under current statute, an individual may establish an IDA if the individual receives or is a member of a household that receives Temporary Assistance to Needy Families (TANF) or the individual is a member of a household with annual income that is less than 175% of the federal poverty level. An IDA is established in a financial institution administered by a community development corporation. Under current statute, the state matches every \$1 of an IDA owner's annual deposits up to \$300 with \$3 in state funds. Thus, the maximum annual matching payment by the state is \$900 per IDA. The annual matching payment is also limited to four years per IDA. Thus, if an IDA owner deposits \$300 per year, the principal amount in the IDA after four years would total \$4,800 (\$1,200 in deposits and \$3,600 in state matching payments). Under current statute, up to 800 new IDAs may be established each year.

Annual account and deposit totals over the last three years are summarized in the table below. Assuming the 1,000 active account total persists, the deposit information suggests that roughly 900 accounts could potentially increase annual deposits from \$300 to \$400 to obtain the additional \$300 in state matching funds proposed under the bill. This would generate additional state matching payments of \$270,000.

	FY 2004	FY 2005	FY 2006
Active IDAs	1,021	1,004	973
Avg. Deposit	\$256	\$270	\$282
% Depositing \$300	76.2%	83%	86.7%
% Depositing More Than \$300	1.8%	2.3%	2.3%

According to the IHCDCA, the active accounts total has declined because new accounts were not established in FY 2005 or FY 2006 due to insufficient funding for required matching payments. Annual appropriations for IDAs totaled \$1 M each in FY 2006 and FY 2007. IHCDCA is currently using federal funds to augment matching payments from appropriations. They indicate that, as a result, 468 new IDAs have been established in the current fiscal year, with active accounts expected to total about 1,200 in the current fiscal year.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Housing and Community Development Authority.

Local Agencies Affected:

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